

California Public Utilities Commission

Report to the Legislature

**Year 2007 Utility Procurement
of Goods, Services and Fuel
from
Women-, Minority-, and Disabled Veteran-owned
Business Enterprises**

Submitted
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EXECUTIVE SUMMARY

This is the California Public Utilities Commission's ("Commission") 22nd annual report to the Legislature, pursuant to Public Utilities (PU) Code Section 8283, on progress reported by utilities in procuring goods, services, and fuel from women-, minority-, and disabled veteran-owned business enterprises (WMDVBEs).

PU Code Section 8283 requires Commission-regulated gas, electric, and telephone utilities, and their regulated subsidiaries and affiliates, with gross annual revenues exceeding \$25 million, to submit annual verifiable plans for increasing procurement from WMDVBEs. The Commission is responsible for verifying the status of WMDVBE applicants, reporting results of the program, and making recommendations to achieve maximum results in implementing legislative policy.

PU Code Section 8283 mandates that the Commission submit its report on September 1 of each year. General Order (GO) 156 requires each utility to establish goals for utility purchases of services, goods, and fuel as a percentage of total procurement from WMDVBEs. The goals are 15 percent, 5 percent, and 1.5 percent for minority-owned, women-owned, and disabled veteran-owned businesses, respectively.

Utility spending on WMDVBE procurement increased from \$2.73 billion in 2006 to \$2.80 billion in 2007, an increase of 2.56%. *As a percentage of total utility procurement, amounts from WMDVBE firms increased from 12.81% in 2006 to 14.57% in 2007.*

Major program accomplishments and significant developments for the Commission's Utility Supplier Diversity Program include:

- The Commission held its fifth Full Panel hearing in September 2007, and will hold its sixth hearing in early October 2008, regarding the supplier diversity program and other diversity issues. High-level executives and representatives from industry, government, and other interested parties (CEOs, Commissioners, etc.) are expected to attend.
- The Commission continues to expand its efforts in the areas of legal services and financial services, areas of spend that are traditionally underrepresented in WMDVBE procurement. After a focus on these areas at the October 2006 Full Panel Hearing, the utilities' procurement levels in both areas have increased in the past year. Specifically, legal spending on WMDVE firms increased to over \$7 million, and financial services spending increased to \$2.4 million. Due to the Commission's actions, both the utilities

and WMDVBE vendors are regularly hosting outreach events to attract and match potential new vendors to increase utilization of diverse legal and financial services firms. The PUC Commissioners and Staff participate and present at these events.

- The Commission launched an initiative to better understand the unique characteristics of the traditionally underrepresented DVBE community. Through a series of outreach meetings with veteran organizations, the Commission is creating a draft DVBE profile and database program to better match DVBEs with utilities.
- The Commission hosted eight Small Business Expos throughout the state in 2007. The Expos matched small businesses and diverse vendors to utility procurement personnel. A representative of the Commission's WMDVBE certification clearinghouse operator attended many of the expositions as well.
- The Commission has completed the first phase of the upgrade to its supplier database. This upgrade now allows utilities and the public to better identify diverse suppliers that are Commission certified in particular areas of expertise and by geographic region (see <http://delaps1.cpuc.ca.gov/SupplierDiversity/f?p=websearch:1:531111214972041>).
- The Commission continues to work with the California Utility Diversity Council, community-based organizations and business organizations such as chambers of commerce to promote the goal of WMDVBE development in California.

OVERVIEW OF 2007 SUPPLIER DIVERSITY PROCUREMENT

Total utility WMDVBE procurement for 2007 was \$2.80 billion – a 2.56 percent increase from the \$2.73 billion reported in 2006. Of the \$2.80 billion for 2007:

Category	Procurement Amount	Percentage Achieved	Goal
MBE	\$1.8 billion	9.40%	15.0%
WBE	\$927 million	4.83%	5.0%
DVBE	\$67 million	0.35%	1.5%

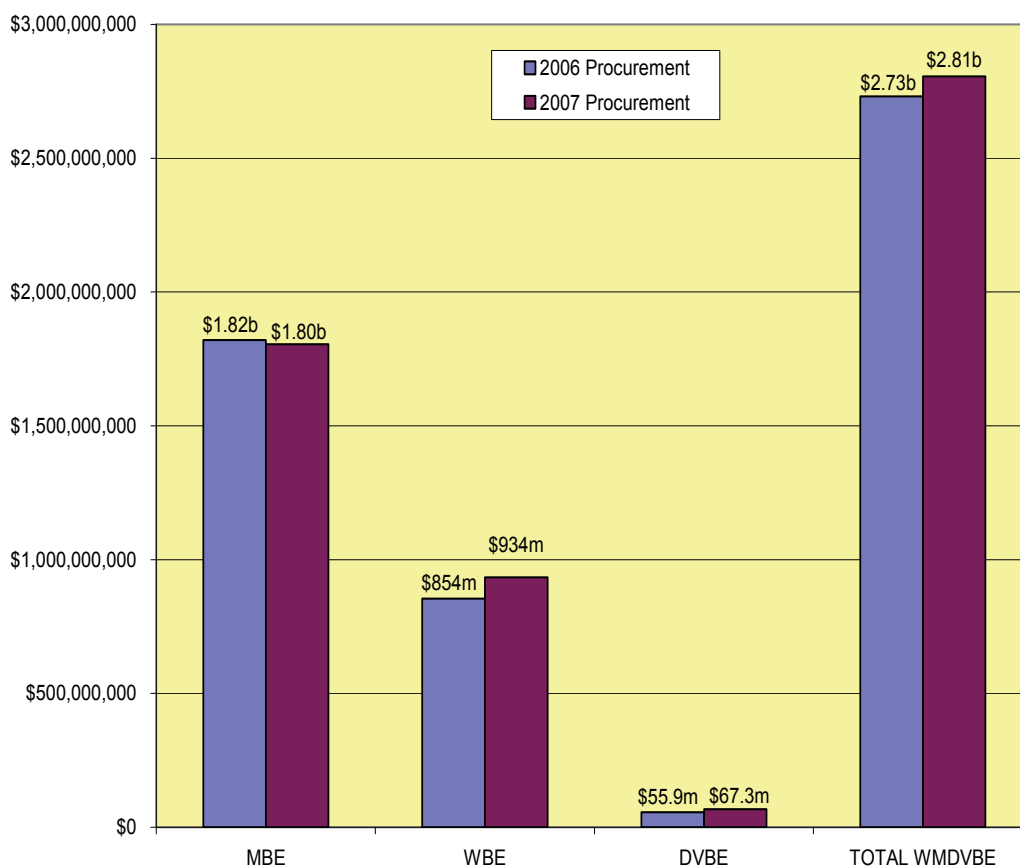
The large utilities increased their percentages in each of the three WMDVBE categories, and the small utilities increased their percentages in the MBE and WBE categories. The results show the utilities are nearly meeting the 5 percent goal for women-owned businesses, but are not achieving the 15 percent goal for minority-owned business enterprises, nor the 1.5 percent goal for disabled veteran-owned business enterprises.

In 2006, the Commission reported the results of 29 utilities; for 2007, the Commission has gathered information on the results of 30 utilities, including seven water companies.

2007 UTILITY WMDVBE PROCUREMENT PROGRAM RESULTS

This report summarizes utility procurement information into two categories: 1) large utilities (those with total procurement over \$250 million); and 2) small utilities (those with procurement under \$250 million). Attachment A to this report details the utilities' 2007 and 2006 WMDVBE procurement program results. The large utilities represent a disproportionately large share of total utility procurement (97%). Of all utilities required to report, the following exceptions are noted: Comcast of California and Cox Communications of California report they do not make in-state procurement decisions and had no amounts to report.

Comparison of 2006 and 2007 WMDVBE Procurement



Program Results of Large Utilities

Eleven large utilities reported activity in their WMDVBE programs:

- Cingular Wireless
- Southern California Edison (Edison)
- Pacific Gas and Electric Company (PG&E)
- AT&T California
- AT&T Communications of California
- AT&T/ASI
- San Diego Gas & Electric Company (SDG&E)
- Southern California Gas Company (SoCalGas)
- Verizon of California
- Verizon Wireless

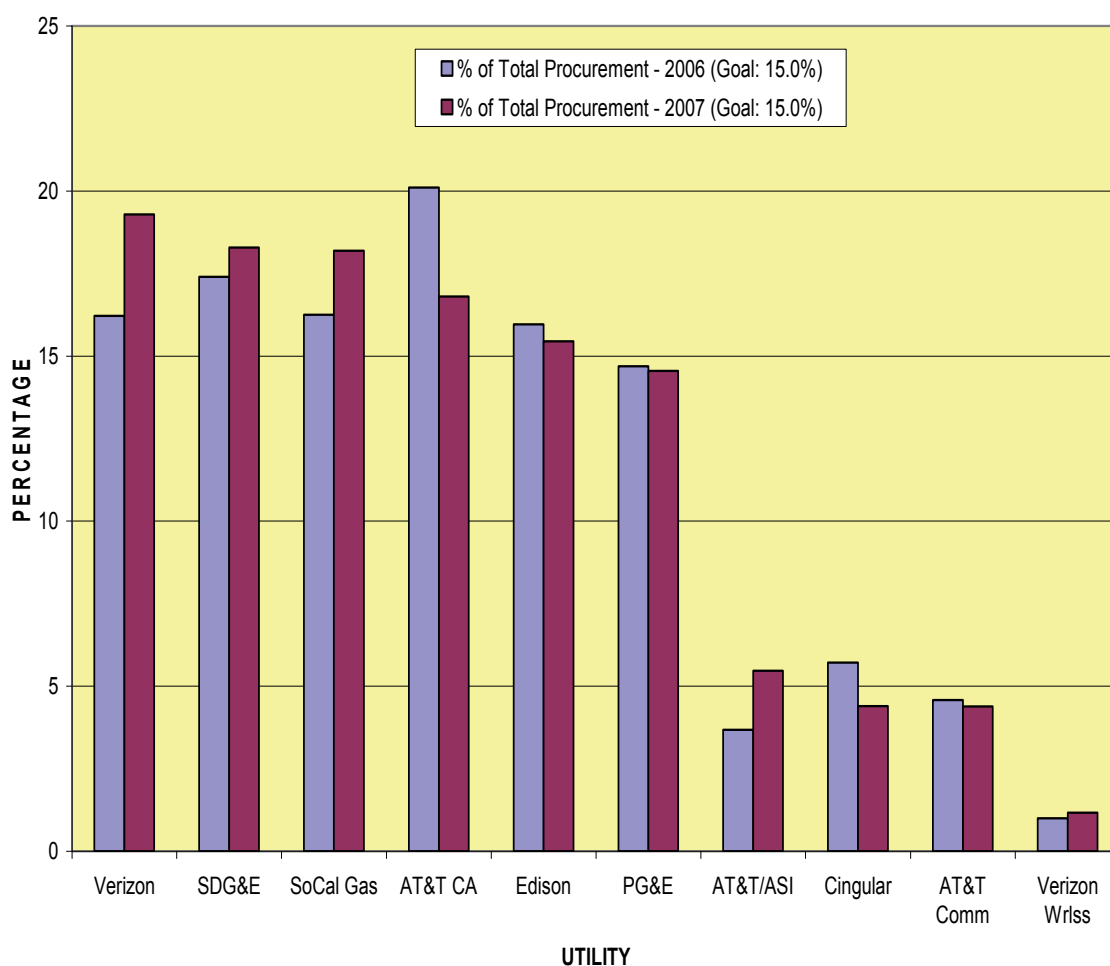
Sprint filed a report, but reported their data in a manner that is not acceptable per General Order 156. Consequently, Sprint's results are not included in this report highlighting the remaining 10 large utilities. The Commission requires all utilities to follow reporting requirements specified in General Order 156.

The 2007 results for the large utilities show an overall WMDVBE procurement increase of \$55.26 million, as well as an increase of 1.89% of total procurement; from \$2.67 billion (12.99%) in 2006 to \$2.72 billion (14.88%) in 2007 [See Tables 1A and 1B in Attachment A].

Large Utilities' Procurement: Minority-owned Business Enterprises (MBEs)

Of the large utilities, five met the MBE procurement goal of 15 percent, and five did not. Large utilities' procurement dollars on MBEs declined from \$1.79 billion in 2006 to \$1.76 billion in 2007, but increased as a percentage of total utility procurement from 8.68 percent in 2006 to 9.61 percent in 2007. SDG&E, SoCal Gas, AT&T/ASI, Verizon, and Verizon Wireless all reported increases in both dollars and percentages of total corporate procurement from minority-owned businesses [See Tables 1A and 1B in Attachment A].

Minority Business Enterprises - Comparison of 2006 and 2007 Procurement

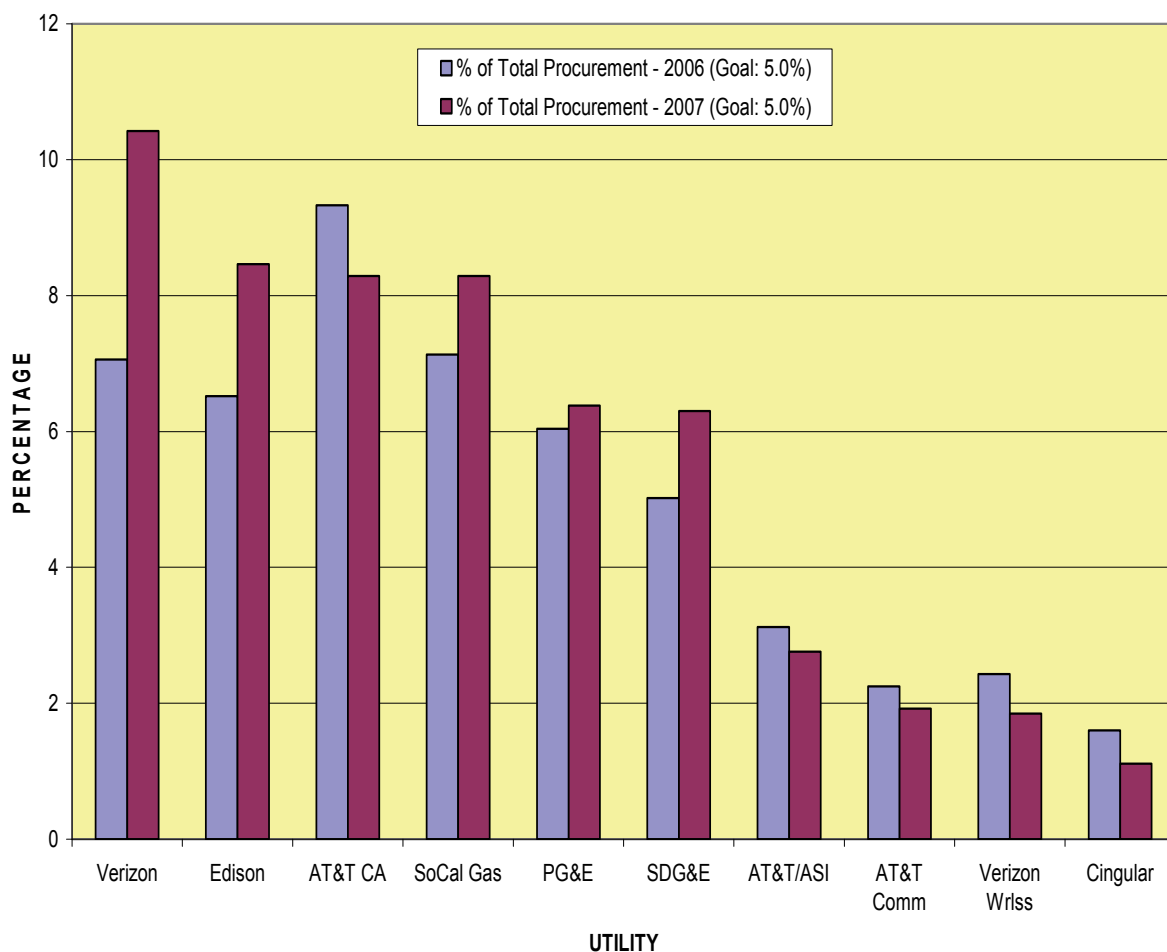


Large Utilities' Procurement: Women-owned Businesses Enterprises (WBEs)

Of the 10 large utilities, six met the procurement goal of 5 percent with WBEs and four did not. The four that did not meet the goal are newer members to the program, and have not yet fully developed their own programs. Overall, the utilities spent more procurement dollars on WBEs - from \$831 million (4.04%) in 2006 to \$899 million (4.91%) in 2007. Edison, SDG&E, SoCal Gas, PG&E, Verizon, and Verizon Wireless all reported increases in both dollars and percentages of total corporate procurement from women-owned businesses

[See Tables 1A, 1B, 6A and 6B in Attachment A].

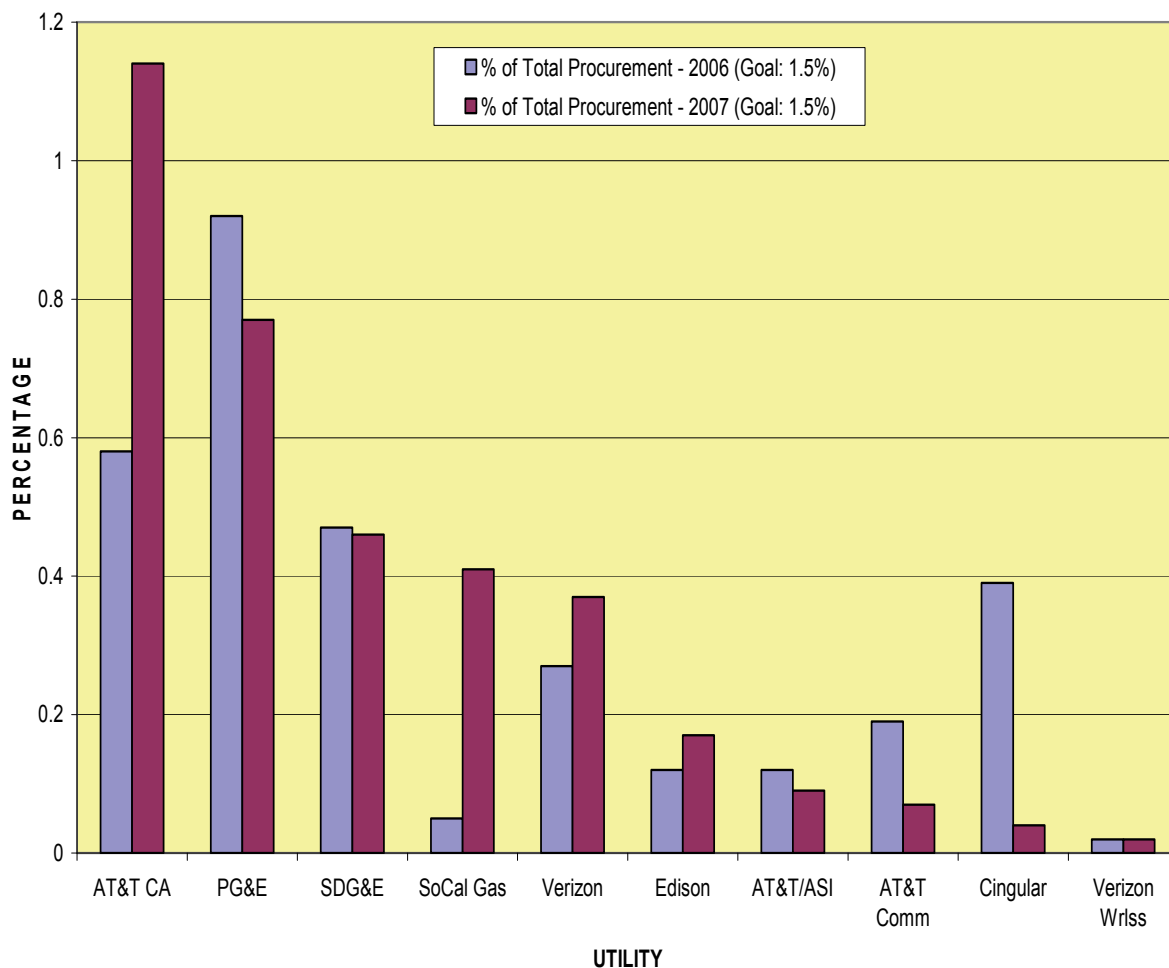
Women Business Enterprises - Comparison of 2006 and 2007 Procurement



Large Utilities' Procurement: Disabled Veteran-owned Businesses (DVBs)

The large utilities' procurement from DVBs increased from \$55 million (0.27%) in 2006 to \$67 million (0.36%) in 2007. No large utility reported achieving the 1.5 percent procurement goal in General Order 156. Edison, AT&T California, SoCal Gas, and Verizon California all reported increases in both dollars and as a percentage of total procurement from disabled veteran-owned businesses. AT&T California was the only utility to achieve greater than 1% in its' DVBE procurement. AT&T's results in this area also show they nearly doubled their results from 2006 [See Tables 1A, 1B, 7A and 7B in Attachment A].

Disabled Veteran Business Enterprises - Comparison of 2006 and 2007 Procurement



Program Results of Small Utilities

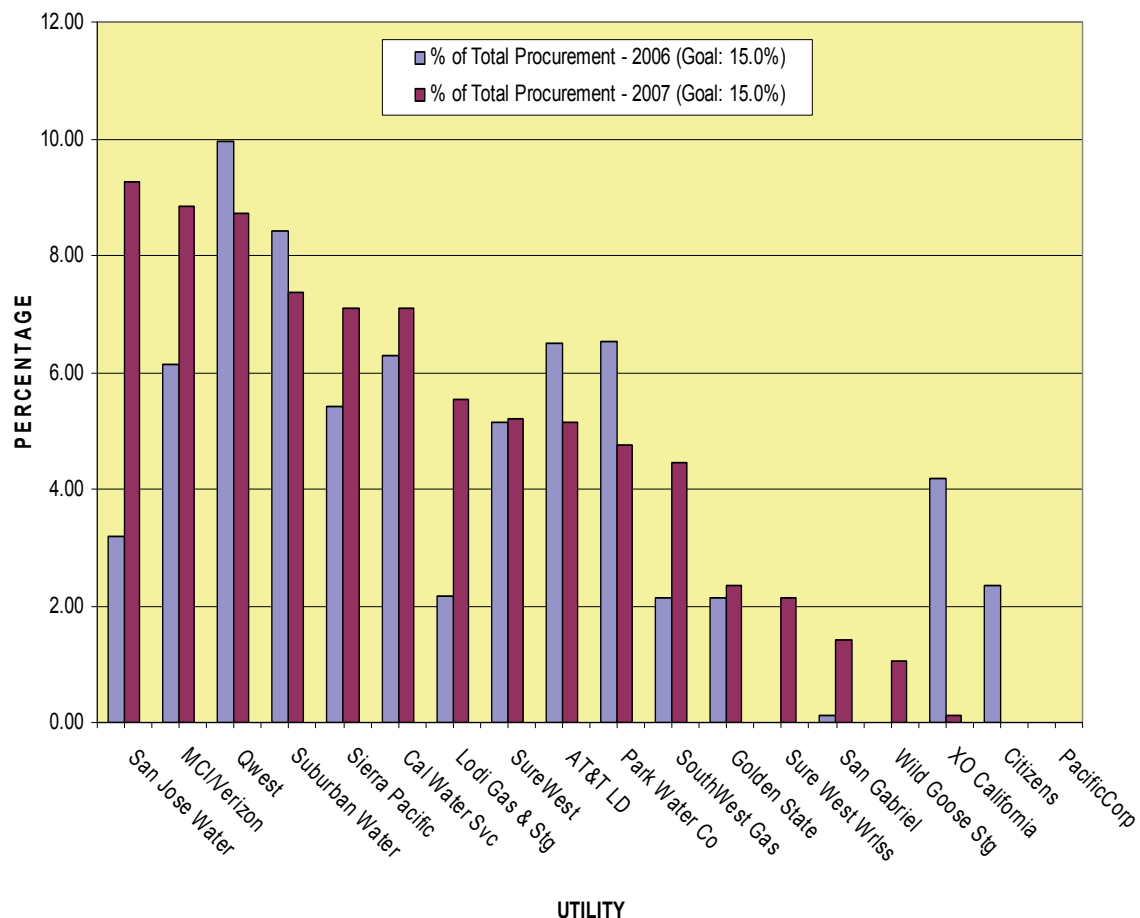
For those regulated utilities having a total procurement of less than \$250 million, overall combined WMDVBE procurement increased in dollars, and increased as a percentage of total procurement, from \$58.6 million (7.83%) in 2006 to \$71.4 million (8.17%) in 2007 [See Tables 2A and 2B in Attachment A]. Small utilities account for approximately 3% of total utility procurement. The nineteen small utilities reporting in the WMDVBE program are:

- AT&T Long Distance
- Citizens Telecommunications (Citizens)
- Lodi Gas & Storage
- MCI/Verizon
- PacificCorp (PPL)
- Qwest
- Sierra Pacific
- SouthWest Gas
- SureWest
- SureWest Wireless
- Wild Goose Storage
- XO California
- California-American Water Company
- California Water Service
- Golden State Water Company
- Park Water Company
- San Gabriel Valley Water Company
- San Jose Water Company
- Suburban Water Company

Small Utilities' Procurement: Minority-owned Businesses (MBEs)

Overall small utility procurement from MBEs increased in dollar volume and as a percentage of total procurement, from \$34.7 million (4.63%) in 2006 to \$43.2 million (4.95%) in 2007. No utility achieved the 15 percent MBE goal. San Jose Water, MCI/Verizon, Sierra Pacific, California Water Service, Lodi Gas & Storage, SouthWest Gas, Wild Goose Storage, and San Gabriel Valley Water all reported increases in MBE procurement, both in dollar volume and as a percentage of total corporate procurement [See Tables 2A and 2B in Attachment A].

Minority Business Enterprise: Comparison of 2006 and 2007 Procurement - Small Utilities

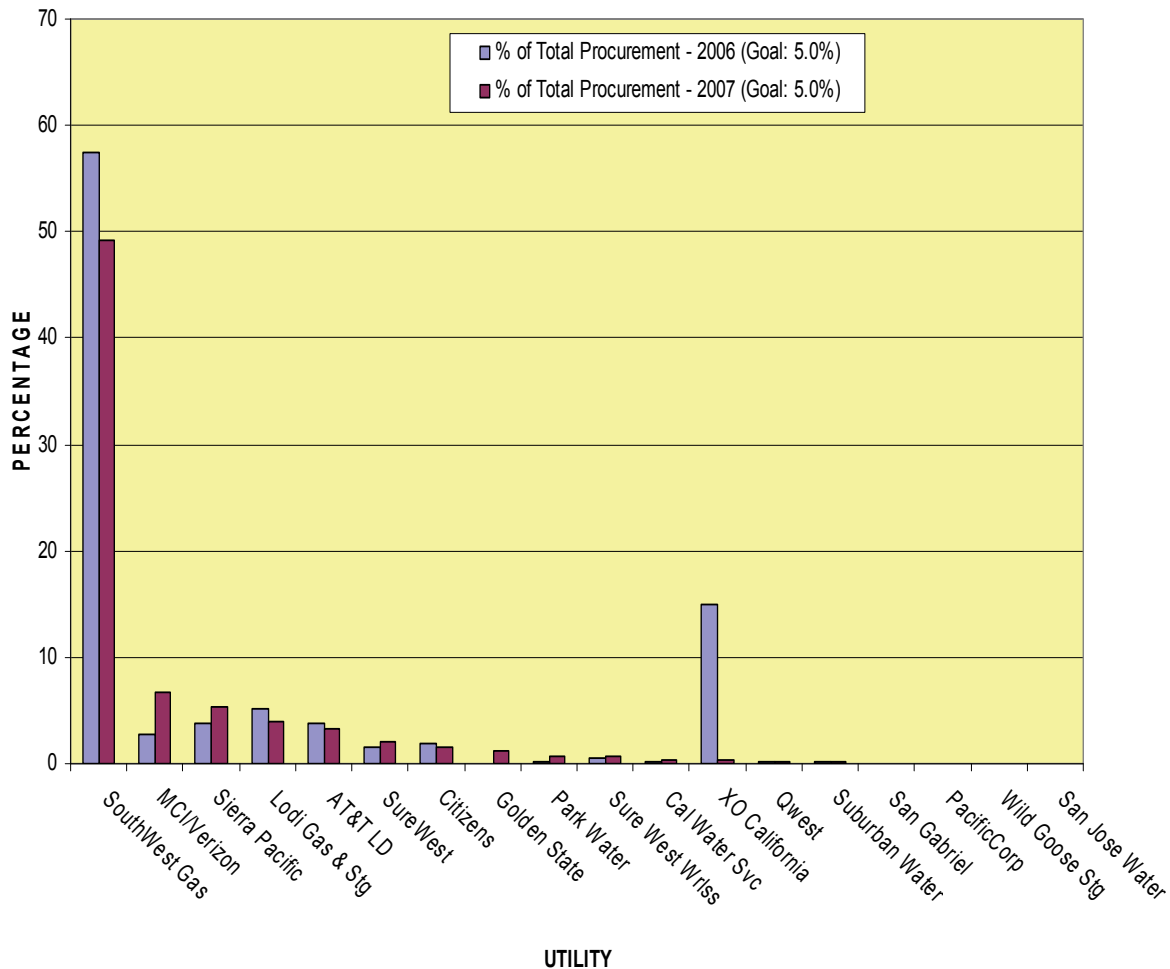


Small Utilities' Procurement: Woman-owned Businesses (WBEs)

Small utility procurement from WBEs increased in dollar volume and as a percentage of total procurement, from \$23.3 million (3.11%) in 2006 to \$27.6 million (3.16%) in 2007.

MCI/Verizon, Sierra Pacific, and SouthWest Gas all met the 5% WBE goal. SouthWest Gas states their extraordinary achievement level was primarily due to the utilization of a WBE owned pipeline contractor. MCI/Verizon, Sierra Pacific, SureWest, SureWest Wireless, Golden State Water, Park Water, California Water Service and San Gabriel Valley Water all reported increases both in their percentages and dollar volumes of WBE procurement. [See Tables 2A and 2B in Attachment A].

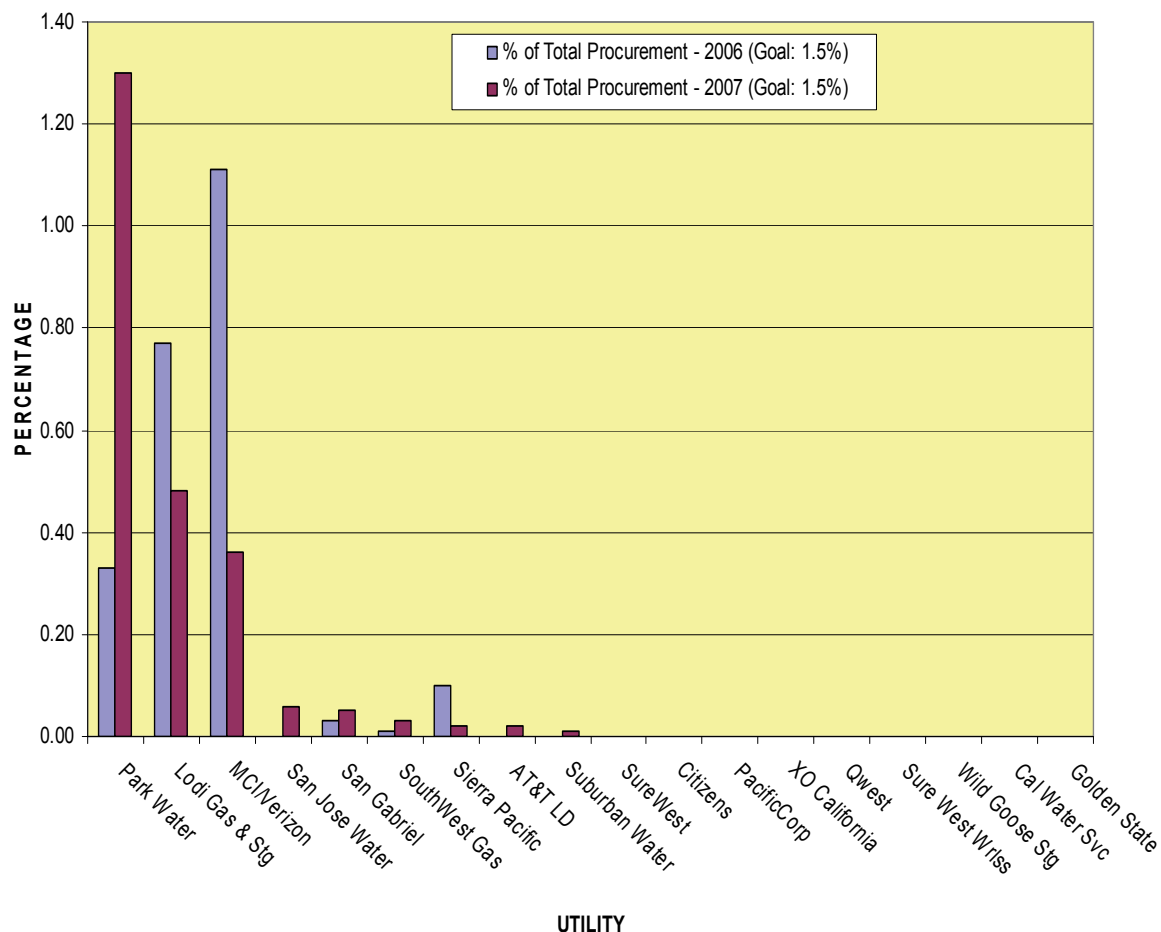
Women Business Enterprises: Comparison of 2006 and 2007 Procurement - Small Utilities



Small Utilities' Procurement: Disabled Veteran-owned Businesses (DVBES)

Small utility DVBE procurement decreased in dollars and as a percentage of total procurement from \$620,290 (0.08%) in 2006 to \$535,083 (0.06%) in 2007. No utility achieved the 1.5 percent DVBE goal, although Park Water Company (the smallest of the participating water utilities) came very close at 1.3 percent. Park Water, San Jose Water, San Gabriel Valley Water, SouthWest Gas, Suburban Water, and AT&T Long Distance all reported increases in both dollar volume and as a percentage of total procurement from DVBEs [See Tables 2A and 2B in Attachment A].

Disabled Veteran Business Enterprise: Comparison of 2006 and 2007 - Small Utilities



Fuel Procurement

General Order 156, Section 9.1.10 allows the utilities to report fuel procurement separately, and does not require fuel purchases to be included in the procurement base on which achievement of the 5-percent, 15-percent, and 1.5-percent goals are based. Five energy utility companies (PG&E, SCE, SoCalGas, SDG&E, and SWG) reported fuel purchases separately.

Overall, fuel procurement from WMDVBEs increased in dollars from \$480 million in 2006 to \$702 million in 2007, and increased as a percentage of total corporate fuel procurement from 7.34% in 2006 to 9.92% in 2007. The Commission applauds the efforts made by the energy utilities and the positive results demonstrated by the increases in procurement from WMDVBE fuel vendors [See Tables 8A and 8B in Attachment A].

PROGRAM EXPANSION AND IMPROVEMENTS

Targeted Procurement Categories

Section 8.11 of GO 156 states, "Each utility shall make special efforts to increase utilization and encourage entry into the marketplace of WMDVBES in product or service categories where there has been low utilization of WMDVBES, such as legal and financial services, fuel procurement, and areas that are considered technical in nature." The Commission is currently reviewing the utilities' efforts in the areas of legal services and financial services.

Legal Services

A review of the utilities' 2007 reports shows that progress continues to be made by some of the major utilities, while others need to make more concerted efforts. Southern California Gas showed the highest level of overall achievement at 20.38%, followed by Verizon California at 13.86%, and Pacific Gas and Electric at 9.01%. Pacific Gas and Electric attained the highest dollar amount of diverse legal services procurement at \$3.3 million. These amounts all represent increases over last year's results.

Financial Services

While the results show the amount of total procurement directed to diverse financial services lags behind traditional procurement areas, a review of the utilities' 2007 data shows they have made improvements. Southern California Edison attained the highest level of overall achievement at 8.04%, followed by Southern California Gas at 5.80%, and AT&T at 5.62%. The utility showing the largest amount of diverse spend was Southern California Edison at \$1.3 million.

Efforts to Expand Legal and Financial Services

The Commission and utilities continue to expand efforts in the areas of legal services and financial services procurement from WMDVBE firms. Utilities are regularly hosting outreach events to expand the available pool of legal and financial WMDVBES and ultimately increase utilization of diverse legal and financial services firms. Utilities are beginning to include an evaluative component in these programs to aid in gauging the effectiveness of this type of outreach effort. For example, utilities are following up with the participants to determine if contracts for services were awarded. This is an area that will receive much continuing focus from the Commission and the utilities in 2008 and beyond.

In 2007, the Commission started organizing events to increase the utilization of WMDVBE firms in the financial services sector. The first event was held in San Francisco and was attended by the Chief Financial Officers of several of California's largest utilities, representatives from the financial services industry, as well as two PUC Commissioners. The Commission will continue to foster development in this area by organizing additional events in the coming year.

Disabled Veterans

In 2007, the Commission initiated workshops with Disabled Veteran Business Enterprises (DVBES) and the utilities to determine causes and solutions for the low procurement results with these businesses. The workshops have generated increased focus on this vital component of the utilities' procurement programs. One outcome of the workshops is for the Commission to develop a website with profile information for DVBES. The website would offer company profiles that could be used by the utilities to seek out those DVBES that would best meet their needs for certain jobs. Additional workshops, forums, and meetings will be held to address issues and to further the initial efforts already underway.

New Participants - Water Utilities

Commission-regulated water utilities, that are privately owned and operated, are not required by PU Code section 8283 to participate in the program; however the largest water companies in the State are voluntarily complying. Seven water utilities filed reports. California-American Water showed the highest level of overall achievement at 13.41%, while San Jose Water Company reached 9.32%, and Suburban Water Company attained 7.53%. The Commission commends the voluntary efforts shown by the water utilities and calls upon them to make increasing strides in their quest to achieve greater levels of diversity. The Commission stands ready to assist the water utilities in their efforts.

Uniform Reporting Categories

The Commission continues to require the utilities to report their procurement using the Standard Industry Classification (SIC) codes. Use of a common reporting format facilitates a

more realistic and meaningful comparison amongst the utilities. This helps to ascertain which procurement categories are in need of greater effort and attention.

Full Panel Hearing

In October 2008, the Commission will hold its sixth public hearing regarding diversity in utility programs. High level representatives of industry, government, and other interested parties, including utility CEOs, and PUC Commissioners are expected to attend. Topics, speakers, and the agenda are currently being finalized. At this hearing, the major focus will be on advancing procurement opportunities with California's Investor-Owned Utilities (IOUs) and how California's emerging green economy can be successfully integrated with the concepts of diversity.

California Utilities Diversity Council

As a result of the Commission's 2003 Full Panel Hearing, and at the request of minority business associations and public advocates, the California Utilities Diversity Council (CUDC) was established. CUDC's inaugural meeting was held in March 2004 and has been meeting on a monthly basis since then.

The CUDC serves as a resource for advising the Commission, utility companies, policy makers and interested parties on ways to accomplish diversity in the utility industry. CUDC is comprised of twenty-five diverse members representing consumers, WMDVBE advocates, labor leaders, utility representatives and educational institutions. CUDC is member-funded.

The CUDC is composed of five committees. Their purposes are:

1. **Governance** - The CUDC believes that California utility companies must strive towards having their Boards of Directors become more reflective of the diverse population of the state of California.
2. **Employment** – Recruiting, retaining and promoting on an equal basis without preference to any group, reflecting California's demographics, is attainable and measurable. The CUDC promotes a competent and comprehensive multi-lingual and multi-cultural work force both within the utility companies and the Commission.
3. **Supplier Diversity** – Utility companies, and the Commission, contract out billions of dollars every year. Procurement opportunities should be available to all segments of California business, large and small. WMDVBE suppliers seek a fair share of opportunities both in traditional and nontraditional enterprises.
4. **Customer Service** – Over 150 languages are spoken in California. Communication in customers' primary languages will help contribute to improved market penetration, add value to the bottom line and provide better overall service to stakeholders.
5. **Philanthropy** - California utility companies give millions of dollars to nonprofit organizations every year. The CUDC believes that charitable giving should be increased and focused primarily on underserved communities.

Looking ahead to 2008 and beyond, the CUDC will continue its efforts in promoting diversity for California's utilities.

Small Business Expos

The Commission continued to hold small business expos throughout the state for small businesses to learn how to avail themselves of contracting opportunities with utility companies. As part of the invitation process, the Commission's WMDVBE database was used to send out e-mail notifications to thousands of diverse suppliers advising them of the events. Additionally, a representative from the Commission's WMDVBE certification clearinghouse operator, Asian Inc., was present at the events to explain our certification process.

In 2007, the expos were held in Industry Hills, San Jose, San Francisco, and Long Beach. Several hundred small business owners were in attendance at the expositions. These expos are now administered by the Commission's Small Business Program of the Public Advisor's Office. This new program creates a natural synergy with WMDVBE program as many small businesses in California are diverse. These programs are in the process of developing metrics to understand and promote contracting between small and diverse businesses and utilities.

WMDVBE Verification

PU Code Section 8284(a) states that the Commission shall adopt criteria for verifying and determining the eligibility of WMDVBEs utilized in utility procurement contracting. In order to comply with this regulation, the Commission established a WMDVBE clearinghouse. The clearinghouse verifies that firms seeking to compete for procurement opportunities with the utilities meet the eligibility criteria for WMDVBE owned and operated businesses. The Department of General Services verifies the status of disabled veteran-owned and operated businesses. The clearinghouse operator also performs re-verifications on all minority business and women business vendors whose three-year status has expired.

The clearinghouse maintains a database of all verified vendors, including DVBES. Currently, there are 4,125 verified vendors in the database, of which 1,295 are minority-owned businesses, 1,259 are women-owned businesses, 458 are both women- and minority-owned businesses, 985 are disabled veteran-enterprise businesses, 48 are a combination of these ownership categories, and 80 are small disadvantaged businesses. These amounts represent an increase in the total number of verified vendors over 2006. Operating costs of the Clearinghouse are paid directly by the participating utilities.

In an effort to increase the numbers of WMDVBEs in the clearinghouse and to provide better information to utilities and the public regarding diversity programs, the Commission is continuing its efforts to streamline the certification processes. These efforts include: 1) evolution to an on-line application process; 2) a thorough analysis of certification processes and timelines that are utilized by the Commission and the clearinghouse. This effort will have preliminary findings reported at the sixth annual En Banc hearing in October 2008.

The Commission is pleased to announce the completion of a first round of upgrades to the supplier database. The database now has detailed search capabilities and a user-friendly graphical user interface.

New Funding

In January 2007, the Commission authorized a new funding arrangement with the Commission's Clearinghouse operator. Under the new plan, utilities now pay their share of operating costs directly to the Clearinghouse. The arrangement was formally approved by a unanimous vote of the Commission in Resolution CSID-001. More information may be found at http://docs.cpuc.ca.gov/Published/Final_resolution/63662.htm.

Utility Supplier Diversity Webpage

The Commission's primary source of information to the diversity community is the webpage located at <http://www.cpuc.ca.gov/static/supplierdiversity/index.htm>. This includes application forms as downloads, roles and responsibilities for the program, links to certification and utility information and the Commission's enhanced database of certified vendors. In 2008, the Commission will continue to explore the ability to host a web-based certification process.

CONCLUSIONS

For 2006, the utilities reported an increase of 2.56 percent or approximately \$68 million dollars spent on procurement with WMDVBE firms. They achieved this increase in total dollars, *as well as an overall increase in the percentage of dollars going to WMDVBE firms*, notwithstanding the fact that total utility procurement decreased in 2007. Although total utility procurement expenditures were down in 2007, the utilities were able to maintain their percentage of expenditures with diverse firms at higher levels than in 2006. California's utilities subject to the Commission's General Order 156 are recognized and commended for this effort.

This clearly demonstrates that the core objectives of supplier diversity programs can be maintained, even when the circumstances, in this case declining total procurement, might indicate otherwise. The utilities as a whole did not meet the stated numerical goals established by GO 156 in 2007. However, this may be explained by the fact that some utilities are reporting for only the second year, while other utilities have not yet fully developed their supplier diversity programs. Going forward, General Order 156 requires that all reporting utilities submit a plan in which they detail efforts to improve their WMDVBE program and reach goal levels. The Commission commends the utilities for the efforts made in 2007, and calls upon them to maintain the vision and commitment they've shown to make increasing efforts to meet the General Order 156 requirements.

Attachment A – Data Tables

TABLE 1A	2006 WMDVBE Procurement Results for Large Utilities
TABLE 1B	2005 WMDVBE Procurement Results for Large Utilities
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TABLE 7B	2005 DVBE Procurement for Large and Small Utilities (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 8A	2006 WMDVBE Fuel Procurement (Percentage of Total Corporate Procurement)
TABLE 8B	2005 WMDVBE Fuel Procurement (Percentage of Total Corporate Procurement)